HEARTLAND
BUSINESS SERVICES

February 16, 2012

Mary Rupp, Esquire
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 23314-3428

Re: Proposed Amendments to 12 CFR Parts 701 and 741 Pertaining to Loan Participation

Dear Ms. Rupp:

Please consider this comment letter on the proposed changes in the loan participation regulation.

I am the President of Heartland Business Services, a regional business lending credit union servicing organization. Heartland provides member business lending services for 20 credit unions in the state of Missouri. As a Regional MBL CUSO, our mission is to utilize our extensive local commercial lending experience to assist Missouri credit unions in providing sound business lending products to their members and communities. We purposefully limited the geographic scope of our MBL CUSO in order to service business loans in areas where we are familiar and for members whom our credit unions have relationships. Because of this geographic limitation, loan participation within our credit union membership is an important tool used to meet the financing needs of our credit union's members.

We are very supportive of the NCUA Board's continuing efforts to improve industry standards while ensuring credit unions are able to diversify their investments, generate acceptable returns, and offer their members an array of competitive lending products. We are also supportive of most of the proposed changes to the current participation regulation. However, there is one proposed change that we are very much opposed to and feel it would have a negative impact on the credit unions that we service.

Our major concern is with the following proposed change;
4. A credit union may not buy loan participation interests from a single originator that in the aggregate exceeds 25% of the purchasing credit union's net worth. There is no ability to seek a waiver from this restriction.

On the surface, this proposed restriction may limit the credit union's loan participation risk created by an originating credit union or CUSO who is not offering sound business loans or advice, but at the same time it will be creating additional risk as the credit unions seek new unfamiliar loan originators. The risk associated with unsound credit union and CUSO participation offerings should not be limited by an arbitrary figure based on a credit union's net worth, it should be mitigated by proper due diligence of the originating credit union or CUSO.

Over the past six years, Heartland has built a solid reputation of providing our credit union members sound member business lending advice and loan recommendations. This is supported by our low MBL delinquencies and minimal charge offs on member business loans recommended by Heartland. The

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MBL delinquencies on loans recommended and serviced by Heartland have averaged .70% over the past 2 years, well below the industry averages. Over the six year period that Heartland has been administering MBL participation loans, not one of these participation loans has resulted in a charge off. Heartland only offers loan participation opportunities to our credit union members when we recommend the loan and the originating credit union holds at least 10% of the loan. Our credit union members know our MBL underwriting standards, understand the markets we all operate in and are comfortable reviewing our straight forward loan analysis. They are all members of the Missouri Credit Union Association and they know the management of the credit union that originated the participation opportunity. This local knowledge and experience of Heartland and our credit union members is the cornerstone of our successful MBL participation network.

Under this proposed change, Heartland's member credit unions would reach their limit within our network of credit unions and have to seek outside MBL originators. This would cause them additional expense to complete due diligence on each new originator and they would lose the local knowledge of the market and originator. Since the inception of Heartland, I have warned my credit union members to not to get involved with the national MBL CUSOs and credit unions who are marketing participations from credit unions in Texas, Florida, California and other states where they do not have a true understanding of the market. Thankfully, most of them have listened to my warnings and have limited their MBL participations to markets and industries that they understand. Again this proposed restriction would push these credit unions into markets that they have no business getting into.

I am also concerned that there could be no waivers if this proposed regulation is enacted. If a credit union is involved in a participation network that has a proven track record of providing sound member business loans, I believe that they should be able to demonstrate the effectiveness of the program and be able to have this limit waived. All credit unions should not be punished for the lack of due diligence by a few credit unions without any retribution.

In closing, I believe that proper due diligence on the part of the participating credit union is the proper solution to mitigate participation risk and not an arbitrary figure based on a credit union's net worth.

Thank you for considering my comments on this important proposal.

Respectfully,

Jack Pollihan
President